

Grizzly Diamonds Ltd.

Financial Statements (Unaudited)

Three and Nine Months Ended April 30, 2006

To the Shareholders of Grizzly Diamonds Ltd.:

The interim balance sheet of Grizzly Diamonds Ltd. as at April 30, 2006, and the interim statements of loss and deficit and cash flows for the period then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Grizzly Diamonds Ltd.

Balance Sheets

	<i>(unaudited)</i> April 30, 2006 \$	<i>(audited)</i> July 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	1,436,019	635,947
Goods and services tax receivable	101,141	41,175
Accrued interest receivable	8,048	6,295
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	1,545,208	683,417
Mineral properties (Note 3)	2,149,213	573,265
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	3,694,421	1,256,682
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	172,607	166,149
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Shareholders' equity		
Share capital (Note 4)	3,761,340	1,104,440
Contributed surplus	363,136	94,000
Deficit	(602,662)	(107,907)
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	3,521,814	1,090,533
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	3,694,421	1,256,682
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See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Loss and Deficit
(unaudited)

	Three months ended April 30, 2006 \$	Three months ended April 30, 2005 \$	Nine months ended April 30, 2006 \$	Nine months ended April 30, 2005 \$
Revenue				
Interest	10,146	5,390	25,636	5,390
Expenses				
General and administrative	(26,850)	(18,674)	(85,474)	(41,388)
Professional fees	(763)	(12,544)	(12,006)	(16,854)
Consulting fees	(42,866)	(8,300)	(112,366)	(22,550)
	(70,479)	(39,518)	(209,846)	(80,792)
Other expenses				
Stock-based compensation (note 4)	-	-	(310,545)	(59,000)
Write-down of mineral properties	-	(16,251)	-	(16,251)
	-	(16,251)	(310,545)	(75,251)
Future income tax recovery	-	-	-	164,500
Net income (loss) for the period	(60,333)	(50,379)	(494,755)	13,847
Retained earnings/(Deficit) - beginning of period	(542,329)	54,024	(107,907)	(10,202)
Retained earnings/(Deficit) - end of period	(602,662)	3,645	(602,662)	3,645
Basic and diluted net income/(loss) per common share	(0.005)	(0.005)	(0.041)	0.002
Weighted average number of common shares outstanding	13,213,735	9,899,206	12,157,659	7,653,567

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Statements of Cash Flows

(unaudited)

	Three months ended April 30, 2006	Three months ended April 30, 2005	Nine months ended April 30, 2006	Nine months ended April 30, 2005
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(60,333)	(50,379)	(494,755)	13,847
Items not affecting cash				
Stock-based compensation	-	-	310,545	59,000
Write down of mineral properties	-	16,251	-	16,251
Future income taxes	-	-	-	(164,500)
	(60,333)	(34,128)	(184,210)	(75,402)
Change in non-cash working capital items	74,655	63,162	(55,261)	81,474
	14,322	29,034	(239,471)	6,072
Investing activities				
Mineral properties				
Acquisition costs	(65,441)	(118,562)	(91,359)	(124,562)
Exploration costs	(675,460)	(157,008)	(1,286,739)	(159,250)
	(740,901)	(275,570)	(1,378,098)	(283,812)
Financing activities				
Issuance of shares	58,061	-	2,417,641	948,761
Increase (decrease) in cash and cash equivalents	(668,518)	(246,536)	800,072	671,021
Cash and cash equivalents - beginning of period	2,104,537	999,595	635,947	82,038
Cash and cash equivalents - end of period	1,436,019	753,059	1,436,019	753,059
Cash and cash equivalents consist of:				
Cash on deposit with bank	836,019	53,059	836,019	53,059
Guaranteed investment certificates	600,000	700,000	600,000	700,000
	1,436,019	753,059	1,436,019	753,059

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

1. Nature of operations

Grizzly Diamonds Ltd. (the "Company" or "Grizzly") was incorporated in Alberta on May 31, 2002 and commenced operations on January 1, 2004.

Grizzly is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. To date, the Company has not earned significant revenues and is considered to be in the development stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets should the Company be unable to continue.

2. Basis of presentation

These unaudited interim financial statements should be read in conjunction with the Company's July 31, 2005 audited financial statements and the notes thereto. These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles by the Company and follow the same accounting policies and method of application as the Company's financial statements for the year ended July 31, 2005.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in Canada have been omitted. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of the interim periods have been included.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

3. Mineral Properties

	Ownership interest %	July 31, 2005 balance \$	Acquisition costs \$	Exploration costs \$	April 30, 2006 balance \$
Alberta					
White Bear	90	161,666	6,875	9,564	178,105
Smoky the Bear	90	105,030	9,350	137,539	251,919
Grand Cub Aidan	90	9,365	10,758	232,660	252,783
Legend (a)	*	26,088	101,737	262,803	390,628
New Buffalo Head Hills (d)	90	51,833	(51,833)	-	-
Call of the Wild	100	10,400	21,250	8,843	40,493
Preston upon the Wolverine (b)	90	-	23,125	439,817	462,942
Whitefish (c)	100	-	5,600	-	5,600
Kodiak (c)	100	-	14,650	-	14,650
Bear Paw (c)	100	-	4,350	-	4,350
Grand Cub Parker (c)	100	-	15,250	-	15,250
British Columbia					
Goat Mine	100	56,793	53,886	11,490	122,169
Peak	100	87,215	5,810	152,498	245,523
French	100	40,034	411	14,669	55,114
Silver Bear	100	24,841	67,990	16,856	109,687
		<u>573,265</u>	<u>289,209</u>	<u>1,286,739</u>	<u>2,149,213</u>

* The Company has combined its 100% interest in the Legend Property and its 85% interest in the Little Legend Property into a single area of interest called "Legend".

a) Legend

On March 2, 2006, the Company announced that it had signed an agreement with Blue Diamond Mining Corporation ("Blue") and certain individuals from whom Blue acquired its mineral interests, resulting in the Company acquiring a 100% mineral interest in the Legend property and an 85% interest in the Little Legend property (collectively "Legend Property").

To acquire these properties, the Company paid Blue \$12,500 and issued 50,000 common shares of the Company, and issued to certain individuals related to Blue 35,000 common shares and will issue an additional 15,000 common shares if kimberlite or related rock is discovered on the Legend Property. The 85,000 common shares issued in the period were recorded at a value of \$1.01 per share, for a total of \$85,850. Blue will retain a 2% Gross Overriding Royalty on all diamonds produced on the properties. The remaining 15% interest in the Little Legend Property is held by Grizzly Gold Inc., a company controlled by a director and officer of the Company. This acquisition has been approved by the applicable regulatory authorities.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

3. Mineral properties, cont.

b) Preston Upon the Wolverine

The Preston Upon the Wolverine Property was originally part of the property block called the New Buffalo Head Hills. During the six months ended January 31, 2006 the Company separated the townships that comprise the Preston Upon the Wolverine area into a new property. As a result, \$20,000 in acquisition costs were reclassified from the New Buffalo Head Hills Property to the Preston Upon the Wolverine Property.

c) Whitefish, Kodiak, Bear Paw, Grand Cub Parker

In the period ended April 30, 2006, the company staked mineral claims in four townships constituting the Whitefish property; ten townships constituting the Kodiak property; two townships constituting the Bear Paw property; and six townships constituting the Grand Cub Parker property. These properties are composed of townships originally belonging to the Company's New Buffalo Head Hills property, which claims were allowed to lapse and then were re-staked, along with additional adjacent townships.

d) New Buffalo Head Hills

In the period ended April 30, 2006, the townships that comprised the New Buffalo Head Hills property block were re-allocated into new properties. As a result, the original acquisition costs were re-allocated as follows: \$20,000 for Preston Upon the Wolverine, \$11,500 for Grand Cub Parker, \$8,400 for Kodiak, \$3,100 for Bear Paw, and \$3,100 for Whitefish. The remainder of the acquisition costs were re-allocated into existing properties as follows: \$3,100 for Smokey the Bear and \$2,633 for Grand Cub Aidan.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

4. Share capital

Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Common Shares	Amount
	#	\$
Balance – July 31, 2005	10,010,001	1,104,440
Shares issued in private placement – October 24, 2005	2,088,155	2,088,155
Shares issued for property acquisition -Goat Mine	50,000	47,500
Shares issued for property acquisition - Silver Bear	50,000	64,500
Shares issued for property acquisition - Legend	85,000	85,850
Warrants exercised	522,700	261,350
Options exercised	451,020	142,806
Reclassified from contributed surplus	-	41,409
Share issue costs	-	(74,670)
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Balance – April 30, 2006	13,256,876	3,761,340

On October 24, 2005, Grizzly closed a non-brokered private placement for an aggregate of 1,588,155 units and 500,000 flow-through common shares at a price of \$1.00 per unit or flow-through share, for aggregate proceeds of \$2,088,155. Each unit consisted of one common share of Grizzly and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$1.50 per common share within one year of issuance. The Company will be required to incur \$500,000 of qualifying expenditures to be renounced to the holders of the 500,000 flow-through shares. In connection with the private placement, Grizzly paid an aggregate of \$47,415 in finder's fees included in share issue costs.

During the nine months ended April 30, 2006, the Company issued 522,700 common shares from the exercise of warrants for gross proceeds of \$261,350 and 451,020 common shares from the exercise of options for gross proceeds of \$142,806.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

4. Share capital, cont.

Stock options

The Company has a stock option plan under which directors, officers, employees or consultants of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee in a 12 month period shall not exceed 5% of the outstanding common shares of the company (2% in the case of a consultant or investor relations person). Options granted under the plan may not exceed 5 years and vest at terms to be determined by the board of directors at the time of grant, but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or \$0.10 per share.

The following table summarizes activity related to stock options:

	Number of options outstanding #	Weighted Average exercise price \$
Balance – July 31, 2005	1,085,000	0.33
Granted	475,000	1.06
Exercised	(451,020)	0.32
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Balance – April 30, 2006	1,108,980	0.65

The following table summarizes information about the Company's stock options outstanding:

	April 30, 2006			July 31, 2005			
Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of options outstanding #	Weighted Average exercise price \$	Weighted average remaining contractual life Years		
58,980	0.30	0.7	360,000	0.30	1.4		
575,000	0.35	3.7	725,000	0.35	4.4		
150,000	0.70	1.4	-	-	-		
325,000	1.22	4.7	-	-	-		
1,108,980	0.65	3.5	1,085,000	0.33	3.4		

All of the Company's outstanding stock options as at April 30, 2006 were exercisable.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

4. Share capital, cont.

The company accounts for options granted under this plan and the share option agreement with the agent in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and the life of the options.

The Company recorded stock-based compensation expense in the amount of \$310,545 (2005 - \$59,000) in the statement of loss and deficit for options granted in the nine months ended April 30, 2006. The stock-based compensation expense has been determined based on the fair value of 475,000 options at the grant date (weighted average \$0.654 per option; 2005 – \$0.081 per option). The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	3.67%
Expected volatility	91.3%
Annual dividend yield	0.0%
Expected life of options	5 years

Warrants

The following table summarizes activity related to warrants:

	Number of warrants #	Weighted average exercise price \$
Balance – July 31, 2005	1,325,050	0.50
Granted	794,077	1.50
Exercised	(522,700)	0.50
Balance – April 30, 2006	1,596,427	1.00

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Nine Months Ended April 30, 2006

4. Share capital, cont.

The following table summarizes information about the Company's warrants outstanding:

		April 30, 2006			July 31, 2005
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
802,350	0.50	0.7	1,325,050	0.50	1.4
794,077	1.50	0.5	-	-	-
1,596,427	1.00	0.6	1,325,050	0.50	1.4

5. Related party transactions

During the nine months ended April 30, 2006, consulting fees of \$24,250 (2005 - \$22,050) were paid to an officer or a company controlled by an officer of the company; consulting fees of \$2,500 were paid to a company controlled by a director of Grizzly (2005 – nil). In the comparative period, the Company paid \$500 in consulting fees to a company controlled by an officer and director, and \$4,038 in geological consulting fees capitalized to mineral interests were paid to a company controlled by a director.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

6. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, and accounts payable and accrued liabilities. The carrying value of these assets and liabilities approximate their fair values due to the short term maturity of these instruments.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

7. Subsequent events

On May 10, 2006 the Company announced closing of a non-brokered private placement of 500,000 flow-through common shares ("FT shares") at a price of \$1.00 per FT share for aggregate proceeds of \$500,000. Of this amount, insiders of the corporation purchased an aggregate of 430,000 FT shares.